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SUBJECT: EXPANSION OF WORLD'S LARGEST URANIUM MINE TO  
PROCEED DESPITE COMMODITIES DOWNTURN

REF: A. A) CANBERRA 330  
[B. B\)](#) CANBERRA 327  
[C. C\)](#) MELBOURNE 8  
[D. D\)](#) MELBOURNE 2  
[E. E\)](#) 08 MELBOURNE 122

Classified By: Michael E. Thurston, Consul General, Consulate  
General Melbourne

Summary

[11.](#) (C) Despite turmoil in the global commodities market, BHP Billiton is proceeding with plans, albeit at a reduced pace, to expand its Olympic Dam facilities into what will become the largest uranium mine in the world. Lower copper prices have forced BHP to shelve several capital investment programs and to reduce staffing, but plans to release the mine's environmental impact statement on May 1 are still on track. Olympic Dam's leadership is already drawing up plans to provide for the massive amounts of electricity and water that the expanded mine will require. While its Australian competitors Rio Tinto, Oz Minerals and Fortescue are struggling with their balance sheets, BHP appears to be looking ahead to increased demand for nuclear power and other resources. End Summary.

Mine Expansion Moves Ahead

[12.](#) (C) Mining giant BHP Billiton is moving ahead with plans to expand its Olympic Dam facility into what will become the world's largest uranium mine. During an April 3 visit to the mine, BHP's Manager for Integrated Planning, Barry Hewlett told Consul General that the halving of copper prices -- copper constitutes 76 percent of the mine's current business -- will delay expansion of the facilities by at least one year, but BHP still intends to release its environmental impact statement on May 1 for public review. (Note: Uranium was initially seen as a problematic byproduct of copper production at Olympic Dam. End note.) The downturn in commodities prices has forced BHP to shelve several capital investment projects and to cut 200 positions (120 of whom were contractors) at the mine. Caterpillar is a major supplier for Olympic Dam's underground earth moving operations and stands to benefit greatly from the mine's expansion.

[13.](#) (C) The Olympic Dam mine, which is located 311 miles north of Adelaide, sits on the world's largest known uranium deposit. According to the mine's expansion plan, uranium production would increase from its current level of 4,000 tons (representing 10 percent of current global supply) to 19,000 tons. Expansion of the mine's uranium business will

be carried out gradually in order to avoid "flooding the market." Hewlett noted that there is a natural ceiling on uranium demand because customers prefer to diversify their sources in order to minimize political risk. According to Hewlett, India represents a potentially massive market for the mine, but the Rudd Government will not sell uranium to India until it signs on to the non-proliferation treaty. (Note: Under the expansion plans, copper production would rise from 180,000 to 730,000 tons and gold would increase from 100,000 ounces to 800,000 ounces. End note.)

#### Chinese Investment

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¶4. (C) Paul Heithersay, Executive Director for South Australia's Minerals and Energy Resources department accompanied Consul General during the visit and said that the federal government's rejection of PRC-owned Minmetals' bid for Oz minerals (ref. B) is having a "ripple effect" in the South Australian mining industry. According to Heithersay, the decision to block Minmetals' bid on national security grounds due to its Prominent Hill mine's proximity to the Woomera testing site has left many South Australian firms "worried" about securing much needed financing from Chinese investors. Barry Hewlett noted that BHP had put in a "low ball" bid for Oz Minerals' Prominent Hill site and that it is still too early to tell whether that bid will be successful.

#### Next Steps

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¶5. (C) BHP plans to release its environmental impact statement (EIS) to the public on May 1 and expects approvals from the federal and state governments sometime in 2010. Paul Heithersay noted that the South Australian government has already seen the preliminary EIS and is "very supportive" of the expansion. Responding to Consul General's question on whether the EIS would generate similar public opposition as did the controversial Gunns paper mill in Tasmania and the desalination plant in Victoria (refs. B and D), Hewlett said the company is not anticipating much reaction. Heithersay echoed this sentiment and said that Australian worries over greenhouse gas emissions may actually increase support for nuclear power.

#### Impact on the Environment

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¶6. (C) The Olympic Dam mine presently consumes 10 percent of South Australia's electricity, but when expansion is complete, it could absorb as much as 60 percent of existing capacity in SA. According to Hewlett, expanding the facilities will lead BHP to put out a bid for a dedicated power station near the mine from which the company will buy back power on a contract basis. BHP sources have previously said that purchasing power from renewable energy projects like geothermal may also be a possibility.

¶7. (C) The company is also considering building a desalination plant on the Spencer Gulf and will offer increased water supplies as a "fringe benefit" to local residents who would be impacted by the plant. The mine presently draws its water from the Great Artesian Basin and will continue to do so even with a dedicated desalination plant. Natural gas will continue to be piped in from nearby facilities. During a previous visit to Adelaide, Canberra econoff was told that the Olympic Dam expansion would result in a "carbon neutral" facility, with the company likely to purchase international CO<sub>2</sub> reduction credits to offset the much larger emission footprint of the open-pit expansion.

#### Comment

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¶8. (C) We were struck by Olympic Dam management's calm appraisal of the global downturn in commodities prices. While BHP acknowledged that expansion plans will likely be delayed, we believe it sees increased uranium production as a

stabilizing force for its other more volatile resource products. BHP has gone so far as to create a special "Uranium Australia" division based in Adelaide which is headed by Olympic Dam's mining boss. A lengthy approval process still lies ahead for mine's expansion which will give BHP time to assess market conditions. While it is too early to evaluate the potential market impact of an expanded Olympic Dam mine, BHP is looking to the future while many of its Australian competitors are worried about troubled balance sheets.

THURSTON